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TAGS: [ECON](#) [EAGR](#) [EAID](#) [EFIN](#) [EINV](#) [ELAB](#) [PGOV](#) [BL](#)  
SUBJECT: GOB UNVEILS ECONOMIC DEVELOPMENT PLAN

REF: A. LA PAZ 1248

- [1B.](#) LA PAZ 1596
- [1C.](#) LA PAZ 1517
- [1D.](#) LA PAZ 1614

[11.](#) (SBU) Summary: The GOB released its five-year national development plan on June 16. The plan proposes a strong state presence in the economy and natural resource management and substantial public investment in order to create jobs, diminish poverty, improve health and education, and provide universal access to basic services. The state will assist production by providing technical assistance and financing through a national development bank. Bolivia will seek to regain sea access and promote the international acceptance of the coca leaf. The plan also proposes the elimination of the independent regulatory system which oversees hydrocarbons, electricity, telecommunications, transportation, water, and forestry, while proposing state take-overs of 51 percent of six companies (in addition to the three hydrocarbons companies that were nationalized on May 1) that were partially privatized in the 1990s, including two with U.S. investment -- Ferroviaria Oriental/Genesee and Wyoming and Corani/Duke Electric. End summary.

#### Development Planning Minister Presents Five-Year Plan

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[12.](#) (SBU) Development Planning Minister Carlos Villegas made a powerpoint presentation on the GOB's five-year national development strategy to President Morales; Vice President Garcia Linera; the cabinet; representatives of diplomatic missions, aid agencies, and social organizations; and the press on June 16. The plan, "A Democratic, Dignified, Sovereign, and Productive Bolivia," proposes strong state involvement in the economy and substantial public investment in order to create 90,000 jobs annually, diminish poverty from 59 to 50 percent, improve health and education, and provide universal access to basic services within a five-year timeframe. Villegas referred to the GOB's "first term" several times, implying that the GOB would seek to alter the

one-term presidential limit in the upcoming Constituent Assembly. Based on Villegas' presentation, the highly-theoretical plan, which aims to "eliminate colonialism and neoliberalism and construct a multicultural society and a communitarian state in which the state, private, and community economies live harmoniously together", contains several laudable poverty-reduction goals but lacks a realistic explanation of how these goals can be achieved.

#### Goals: Improved Income/Education/Health/Services

13. (U) The plan aims to decrease poverty, reduce illiteracy by training 1.2 million people, improve access to health care through universal insurance, build 100,000 homes (in part to promote the construction business/generate jobs), and increase access to potable water, electricity, and natural gas. The GOB intends to generate jobs and promote increased production through a mechanization program and industrialization of the coca leaf. Following are overall plan projections:

	2005	2011
Poverty rates	58.9 percent	49.7 percent
Extreme poverty	35.3 percent	27.2 percent
GDP per capita growth	1.8 percent	4.3 percent
GINI coefficient	.59	.58
Unemployment	8.4 percent	4.0 percent

#### GOB Support for Production

14. (U) The plan proposes a number of government programs to support production, job training, and job creation, including "My First Job" for urban youth and "My Business" for fledgling entrepreneurs. The plan discusses a three-level "production matrix" in which the state is the principal actor

made up of "the strategic sector" -- hydrocarbons, mining, electricity, water, forests, and biodiversity; "the employment generating sector" -- industry, manufacturing, tourism (GOB to promote training and community tourism), and agriculture (GOB to promote irrigation and food sovereignty); and "the infrastructure sector" -- transportation (GOB to promote construction of an integrated national road system), telecommunications, technology, and financial system. Although government support will focus on indigenous communities and small enterprises by providing technical assistance and financing, the plan foresees a role for all economic actors, even large agricultural producers and big business. Villegas added that foreign companies must respect state sovereignty, employ Bolivians, and buy Bolivian products.

#### Resources: Hydrocarbons, Mining, Electricity, Water, Land

15. (U) Villegas referred to the GOB's May 1 decree that nationalized hydrocarbons and gave the state control over prices, volumes, and new contract rules (ref A). On mining, he said that the GOB would change the mining code and tax rates (ref B), define COMIBOL's (state mining company) participation in the sector, promote industrialization and mining exploration programs, and strengthen cooperative and small mines. The plan aims to provide universal access to electricity and turn Bolivia into an "energy center" that generates sufficient electricity to meet domestic demand and export, while providing legal security to investors. The GOB is currently promoting a bill in congress to revise the water law, granting water management to the state and proclaiming that access to water is a human right. On land, the GOB will apply the 1996 land law and actively redistribute unproductive lands and well as available government lands (ref C).

#### Health and Education Programs

16. (U) The plan proposes a subsidized school breakfast and lunch program, "Bolivia without Hunger," as well as universal health coverage, a health program targeting municipalities, and a "Zero Malnutrition" program. The plan also aims to

reform higher education and focus the educational system more on technical areas and science through the "Education for Production" program.

#### Justice, Security, and Democracy

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¶7. (U) According to Villegas, the GOB aims to improve the justice system so that it is more transparent and respects women's and indigenous people's rights. To reduce crime, the GOB plans to create "citizen security groups." The state will tolerate "zero corruption" and will reform the national police. The plan envisions a new role for the armed forces, which will promote development by participating in infrastructure projects. To promote democracy, the plan aims to make the political system more inclusive, facilitate a national dialogue, and form a transparent National Development Council.

#### State Financing and Macroeconomic Policy

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¶8. (SBU) Villegas said that the state would provide financing for artisans, small and medium enterprises, farmers, and indigenous people through a state development bank (ref D). He said that the GOB had USD 300 million for funding the bank, of which USD 140 million would be earmarked for production, USD 100 million for exports and imports, USD 30 million for infrastructure, and USD 30 million for housing. Villegas said that although the GOB desires macroeconomic stability, stability would not be the GOB's primary goal in designing monetary and fiscal policy. Instead, the government would implement policies that generated jobs, income, and exports. The plan optimistically predicts GDP growth of 7.6 percent by 2011, almost double the 2005 figure.

This prediction assumes large growth in the metallurgy, electricity, refining, and construction industries. The GOB expects public investment to increase significantly, totaling USD 6.8 billion between 2006 and 2010, and projects private investment at USD 5.8 billion for the same timeframe. The GOB is counting on receiving foreign assistance to fund this public investment and a projected public deficit of 2.1 percent (which seems unreasonably low given the significant spending plans) in 2011 and will organize a donor consultative group within the next few days to discuss, Villegas said.

#### Foreign Policy

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¶9. (U) Via foreign policy, Bolivia will seek to maintain its sovereignty, recoup its access to the sea, promote international acceptance of the coca leaf, promote the sustainable use of its natural resources, and protect Bolivian citizens abroad, ensuring their right to vote in Bolivian elections. The state will review bilateral treaties and "guarantee legal security to foreign companies with clear rules of the game." The state will negotiate trade agreements that support "solidarity amongst peoples," promote Bolivian export diversification, and protect the domestic market. International cooperation will be aligned with state priorities.

#### Elimination of Independent Regulatory System

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¶10. (U) According to press reports following the plan's release, the GOB will eliminate the six independent regulators -- hydrocarbons, electricity, telecommunications, transportation, basic services (water and sanitation), and forestry -- created by law in 1995 during the process of privatization of state-owned enterprises. Regulatory control would pass to the relevant ministries by January 2007, after the approval of a new law.

#### GOB Take-Over of Partially Privatized Companies

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¶11. (U) Press reports about details of the plan not discussed by Villegas indicate that the GOB intends to take control of nine companies that were partially privatized in the 1990s -- three hydrocarbons (of which two, Chaco/Pan-American and Transredes/Prisma, have U.S. investment), two railways (of

which one, Ferrovial Oriental/Genesee and Wyoming, has U.S. investment), three electricity companies (of which one, Corani/Duke, has U.S. investment), and one telecommunications firm (the GOB intends to increase telecoms coverage and assure that all schools have Internet and communications services). The hydrocarbons take-overs were announced previously in the May 1 decree, after which the GOB named company board members (ref A). The GOB intends to take the same tack with the other six capitalized companies -- take control of the collective capitalization fund which was held in trust to pay Bolivian citizens' pensions (which accounts for roughly 45 percent of company shares), purchase the balance of shares needed to control 50 percent plus one share from the private investors, name 4 out of 7 board members for each company, and delegate operating control to either a private or GOB-controlled entity. (Comment: These measures will mean significantly more state control over the decision-making in these sectors. The state is likely to manage these enterprises for political gain by providing subsidized services to the poor while neglecting profit and long-term sustainability. End comment.)

¶12. (SBU) Comment: The long-awaited GOB plan contains several lofty, laudable goals with respect to poverty elimination, job creation, and expanded services access. However, the plan lacks a realistic explanation of how these goals can be achieved, or how the state would maintain a low deficit while substantially increasing spending, or how Bolivia would continue to attract foreign investment after partially nationalizing the hydrocarbons and other sectors. The government has also paradoxically guaranteed Bolivians that it will continue to pay their pensions, even though it has taken over the fund dedicated to such use and will use the funds for other purposes. Also, the elimination of the independent regulatory system and increased government control over electricity, telecommunications, and transportation seems to leave the door wide open for increased corruption and deterioration of the progress made in expanding services in these areas over the past decade. End comment.  
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